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PAGE 01 STATE 022929

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SUBJECT: COUNTRY ELIGIBILITY FOR GENERALIZED PREFERENCES

(GSP) UNDER SECS 502 (B) (4) AND (6) OF TITLE V OF THE

TRADE ACT OF 1974

REF: (A) STATE 282968; (B) STATE 282967.

1. AS REPORTED REF B, BEFORE GSP CAN BE IMPLEMENTED UNDER

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PAGE 02 STATE 022929

THE TRADE ACT OF 1974, THE INTERNATIONAL TRADE COMMISSION

(ITC) MUST INVESTIGATE THE DOMESTIC ECONOMIC EFFECT OF PREFERENTIAL DUTY-FREE TARIFF TREATMENT ON IMPORTS OF THOSE ARTICLES PROPOSED FOR SUCH TREATMENT FROM COUNTRIES DESIGNATED IN AN EXECUTIVE ORDER AS BENEFICIARY DEVELOPING COUNTRIES. THIS MESSAGE DISCUSSES COUNTRY ELIGIBILITY UNDER THE NATIONALIZATION AND ARBITRATION PROVISIONS OF THE ACT.

2. SEC. 502 (B) (4) OF TITLE V OF THE ACT PROHIBITS THE PRESIDENT FROM DESIGNATING AS ELIGIBLE FOR GSP ANY COUNTRY WHICH HAS NATIONALIZED THE PROPERTY OF U.S. CITIZENS (INCLUDING CORPORATIONS, PARTNERSHIPS OR ASSOCIATIONS 50 PERCENT OR MORE BENEFICIALLY OWNED BY U.S. CITIZENS), OR TAKEN OTHER ACTIONS WITH SIMILAR EFFECT, UNLESS HE DETERMINES THAT FAIR COMPENSATION IS BEING PAID, THAT SUCH COUNTRY IS "OTHERWISE TAKING STEPS TO DISCHARGE ITS OBLIGATIONS UNDER INTERNATIONAL LAW," OR THAT THE PARTIES

HAVE SUBMITTED THE DISPUTE TO ARBITRATION. SEC. 502 (B) (6) APPLIES A SIMILAR PROHIBITION TO ANY COUNTRY WHICH FAILS TO ACT IN GOOD FAITH TO RECOGNIZE AS BINDING OR TO ENFORCE AN ARBITRAL AWARD IN FAVOR OF U.S. CITIZENS (AGAIN INCLUDING CORPORATIONS, PARTNERSHIPS OR ASSOCIATIONS 50 PERCENT OR MORE BENEFICIALLY OWNED BY U.S. CITIZENS). FYI. UNLIKE THE HICKENLOOPER AMENDMENT (SEC 620 (E) OF THE FOREIGN ASSISTANCE ACT), SEC. 502 (B) (4) (D) REQUIRES A PRESIDENTIAL DETERMINATION TO BE MADE AND FURNISHED TO CONGRESS REGARDING THE APPLICATION OF THAT SUBSECTION TO ALL UNRESOLVED DISPUTES. THIS NEW REQUIREMENT REINFORCES THE NEED FOR THE USG TO MONITOR AND TO ASSIST IN RESOLVING OUTSTANDING DISPUTES INVOLVING U.S. PROPERTY. END FYI.

3. IT WOULD BE HIGHLY DESIRABLE FOR THE ITC TO UNDERTAKE ITS PRODUCT REVIEW WITH RESPECT TO THE BROADEST POSSIBLE LIST OF POTENTIAL BENEFICIARIES, AND FOR THE COMMISSION TO BEGIN ITS WORK AS SOON AS POSSIBLE. WE WOULD PREFER TO CONDUCT A DETAILED INVESTIGATION OF CASES WHICH MIGHT AFFECT HOST COUNTRY ELIGIBILITY UNDER SECS. 502(B) (4) AND (6) WHILE THE ITC STUDY IS IN PROGRESS. FOLLOWING DISCUSSIONS WITH CONGRESSIONAL STAFFS, HOWEVER, IT IS NOT CLEAR

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PAGE 03 STATE 022929

THAT THE INTERIM WAIVER MENTIONED PARA 4 REF B WILL BE USED. SEVERAL ALTERNATIVE METHODS OF ACCOMPLISHING OUR OBJECTIVE ARE ALSO UNDER CONSIDERATION, BUT IT IS POSSIBLE THAT DETERMINATIONS OF COUNTRY ELIGIBILITY MAY HAVE TO BE MADE BEFORE THE ITC CAN BEGIN ITS PRODUCT ANALYSIS.

4. ACCORDINGLY, POSTS ARE REQUESTED TO INFORM THE DEPT ASAP OF THE STATUS OF ANY OUTSTANDING CASES WHICH MIGHT

AFFECT HOST COUNTRY ELIGIBILITY UNDER SECS 502(B) (4) AND (6). COMMENTS SHOULD ENCOMPASS, BUT NOT NECESSARILY BE LIMITED TO CASES ALREADY KNOWN TO DEPT, SUCH AS P.T.BAUD IN INDONESIA. CITATION TO PRIOR REPORTING WILL SUFFICE IF NO SIGNIFICANT DEVELOPMENTS HAVE OCCURRED SINCE LAST REPORT. WE ARE AWARE OF NO CASES IN MALAYSIA AND SINGAPORE THAT MIGHT AFFECT ELIGIBILITY, BUT WOULD APPRECIATE EMBASSY CONFIRMATION.

5. THE STARTING POINT FOR EVALUATION SHOULD BE THE TEXT OF THE LEGISLATION ITSELF. UNTIL DEFINITIVE LEGAL ANALYSIS OF 502(B) (4) IS COMPLETED, POSTS SHOULD ASSUME IT APPLIES TO ALL PROPERTY (BOTH COMMERCIAL AND NON-COMMERCIAL) OF U.S. CITIZENS, WITHOUT REGARD TO VALUE. AS A "RULE OF REASON", WE ARE LIMITING THE EVALUATION OF CASES ARISING IN THE POST-WAR ERA, I.E., SINCE JANUARY 1, 1946, OR THE DATE OF INDEPENDENCE OF THOSE COUNTRIES RECEIVING INDEPENDENCE, WHICHEVER IS LATER. SINCE SOME ACTIONS (SUCH AS COERCED PARTICIPATION, SEVERE CURTAILMENT OF MANAGEMENT COERCED PARTICIPATION, SEVERE CURTAILMENT OF MANAGEMENT PREROGATIVES, OR FORCED CANCELLATION OR RENEGOTIATION OF CONTRACTS) MAY BE EXPROPRIATORY IN EFFECT WHILE STOPPING SHORT OF OUTRIGHT TAKEOVER, POST ARE REQUESTED TO INFORM DEPT OF SUCH CASES TO ENABLE US TO EXERCISE JUDGMENT IN DETERMINING WHETHER "NATIONALIZATION" HAS OCCURRED WITHIN THE MEANING OF 502(B) (4) (A)-(C). JUDGMENTS MUST ALSO BE MADE TO DETERMINE, INTER ALIA, WHETHER THE CRITERIA OF 502(B) (4) (D) ARE BEING MET, AND WHETHER "GOOD FAITH" IS PRESENT UNDER 502(B) (6).

6. WHERE APPROPRIATE, WOULD ALSO APPRECIATE MISSION COMMENTS REGARDING WHAT STEPS USG MIGHT TAKE TO BRING THESE PROVISIONS TO THE ATTENTION OF HOST GOVERNMENT LIMITED OFFICIAL USE

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PAGE 04 STATE 022929

OFFICIALS, AND TO ENCOURAGE RESOLUTION OF OUTSTANDING DISPUTES. THIS WILL NOT BE NECESSARY WITH REGARD P.T.BAUD CASE IN INDONESIA, WHICH ALREADY COVERED IN CURRENT REPORTING. IF EMBASSY HAS NOT DONE SO, HOWEVER, IT MAY AT ITS DISCRETION WISH DRAW ON FOREGOING TO REMIND GOI OFFICIALS ONCE AGAIN OF POSSIBLE APPLICATION THESE PROVISIONS TO P.T.BAUD CASE. KISSINGER

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